

Message Text

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SUBJ: IMPENDING NATIONALIZATION OF PLANTATIONS

REF: A) COLOMBO A-29 OF MARCH 8, 1974; B) STATE 167428

1. SUMMARY: RECENT STATEMENTS BY GSL MINISTERS AND COMMENTS TO EMBASSY BY SENIOR CIVIL SERVANTS MAKE CLEAR THAT NATIONALIZATION OF REMAINING PRIVATELY-HELD PLANTATION PROPERTY IS NOW VIRTUALLY CERTAIN AND ONLY AWAITS OFFICIAL ANNOUNCEMENT AT APPROPRIATE AND POLITICALLY OPPORTUNE TIME. GSL INTENDS TO PAY COMPENSATION TO BRITISH, OTHER FOREIGN, AND DOMESTIC OWNERS LOSING PROPERTY BUT NOT IMMEDIATELY BECAUSE OF SEVERE FOREIGN EXCHANGE SHORTAGE. REPORTEDLY, PRIME MINISTER AND PLANTATION INDUSTRIES MINISTER COLVIN DE SILVA DIFFER OVER FINAL DISPOSITION AND CONTROL OF VESTED ESTATES. ECONOMIC CONSEQUENCES ARE LIKELY TO BE DROP IN PLANTATION-SECTOR PRODUCTION AND DISCOURAGEMENT TO FOREIGN INVESTMENT. END SUMMARY.

2. WELL-PUBLICIZED STATEMENTS HAVE BEEN MADE DURING LAST WEEK BY JUSTICE MINISTER FELIX DIAS BANDARANAIKE,
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PLANNING MINISTRY SECRETARY HWWA. DE S. GUNASEKERA,

AND INDUSTRIES MINISTER T.B. SUBASINGHE THAT ALL COMPANY-OWNED PLANTATIONS WOULD BE NATIONALIZED. THESE ARE PRELUDE TO FORMAL ANNOUNCEMENT OF LONG EXPECTED ESTATES TAKE-OVER. SENIOR GSL OFFICIALS HAVE TOLD US PRIVATELY THAT CABINET DECIDED ON NATIONALIZATION AFTER PRIME MINISTER'S MAY TALKS IN LONDON WITH PRIME MINISTER WILSON. WILSON'S SUBSEQUENT COMMENT IN HOUSE OF COMMONS THAT "ANY CHANGES MADE (IN SRI LANKA PLANTATIONS) SHOULD BE ACCOMPANIED, AS IS THE USUAL AND UNIVERSALLY AGREED PRACTICE, BY COMPENSATION IN CASES WHERE THEY ARE TAKEN OVER", WAS TAKEN AS CLEAR SIGNAL THAT HMG WOULD ACCEPT NATIONALIZATION.

3. 1972 LAND REFORM ACT NATIONALIZED ALL HOLDINGS ABOVE 50 ACRES OF INDIVIDUALLY OWNED ESTATES BUT LOCAL AND FOREIGN COMPANY-OWNED ESTATES WERE UNTOUCHED LARGELY BECAUSE OF NEED TO COMPENSATE FOREIGN OWNERS WITH FOREIGN CURRENCY (REFTEL A). WHILE GSL IS EXPECTED TO COMPENSATE DIVESTED FOREIGN COMPANY OWNERS IN HARD CURRENCY, GSL'S CHRONIC FOREIGN EXCHANGE SHORTAGE WILL DOUBTLESS MAKE IT IMPERATIVE THAT PAYMENTS BE STRETCHED OVER SEVERAL YEARS. STERLING COMPANIES OWN 26 PERCENT OF THE 600,000 ACRES UNDER TEA CULTIVATION.

4. IN NEAR FUTURE GSL MAY ONLY MAKE STATEMENT OF INTENT TO NATIONALIZE FOREIGN-OWNED ESTATES WHILE DELAYING PHYSICAL TAKE-OVER UNTIL FUNDS AVAILABLE TO BEGIN COMPENSATION. DRAWBACK OF THIS PLAN WOULD BE EVEN GREATER DISINCENTIVE FOR CURRENT OWNERS TO MAINTAIN PRODUCTION LEVELS AFTER SEVERAL YEARS OF STATUS QUO OPERATION UNDER IMPLICIT NATIONALIZATION THREAT.

5. RADICAL LEFTISTS AND ESPECIALLY LSSP WILL

PRIASE NATIONALIZATION ACTION AS VICTORY DUE MAINLY THEIR EFFORTS. TO GREAT EXTENT IT WILL BE, ALTHOUGH SLFP MODERATES CAN BE EXPECTED TO STRESS THAT IT FULFILLS COMMITMENT MADE BY LATE PRIME MINISTER LIMITED OFFICIAL USE

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S.W.R.D. BANDARANAIKE LONG BEFORE UNITED FRONT COALITION.

6. DISPOSITION OF PLANTATIONS AFTER TAKE-OVER MAY PROVE TO BE PROBLEM. PRIME MINISTER IS REPORTED TO BE RELUCTANT TO TURN THEM OVER TO STATE PLANTATION CORP (SPC) UNDER CONTROL OF COLVIN DE SILVA, PLANTATION INDUSTRIES MINISTER, WHO IS MEMBER

OF TROTSKYITE LANKA SAMA SAMAJA PARTY. ALTERNATIVE MANAGEMENT WOULD BE UNDER CONTROL OF AGRICULTURE MINISTRY, WHICH IS IN HANDS OF PRIME MINISTER'S SRI LANKA FREEDOM PARTY. ESTATE WORKERS TRADE UNIONS HAVE HAILED PLAN TO TAKE OVER PLANTATIONS AND WOULD DOUBTLESS PREFER CONTROL BY SPC WITH WHICH THEY HAVE DEALT AMICABLY IN PAST.

7. ON PAST EXPERIENCE, GSL MANAGEMENT OF ESTATES CAN BE EXPECTED TO RESULT IN FALL IN PRODUCTION WITH SEVERE CONSEQUENCES FOR GOVT'S CHRONICALLY NEGATIVE FOREIGN EXCHANGE POSITION, HEAVILY DEPENDENT ON TEA AND RUBBER EXPORTS. COMPENSATION PAYMENTS, PARTICULARLY IF THEY WERE TO BE MADE PROMPTLY AS SUGGESTED IN REFTEL B, WOULD PUT EXTREME STRAIN ON RESERVES. FURTHER CONSEQUENCE OF FULL TAKE-OVER WILL BE CHILLING EFFECT ON FOREIGN INVESTMENT CLIMATE WHICH GOVERNMENT, IRONICALLY, CLAIMS IT IS OTHERWISE TRYING TO IMPROVE.
VAN HOLLEN

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